Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Message Text

UNCLASSIFIED

PAGE 01 MANAMA 01119 021352Z

65
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /103 W
---------- 093482
R 021155Z OCT 75
FM AMEMBASSY MANAMA BAHRAIN
TO SECSTATE WASHINGTON DC 2475
INFO USDOC CAGNE WASHINGTON DC
AMEMBASSY ABU DHABI UAE
AMEMBASSY AMMAN JORDAN
AMEMBASSY ATHENS GREECE
USINT BAGHDAD IRAQ
AMEMBASSY BEIRUT LEBANON 0611
AMEMBASSY CAIRO EGYPT
AMCONSUL DHAHRAN SAUDI ARABIA
AMEMBASSY DOHA QATAR
AMEMBASSY JIDDA SAUDI ARABIA
AMEMBASSY KUWAIT KUWAIT
AMEMBASSY LONDON UK
AMEMBASSY MUSCAT OMAN
AMEMBASSY SANA YEMEN
AMEMBASSY TEHRAN IRAN

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E.O. 11652: N/A
TAGS: EFIN, ECON, BA
SUBJECT: OFF-SHORE BANKING: BAHRAIN MAKES ITS MOVE

REFERENCE: BEIRUT 11973

1. THE BAHRAIN MONETARY AGENCY (BMA) HAS TAKEN THE FIRST CONCRETE STEP OF WHICH WE ARE AWARE TO CAPITALIZE ON THE SECURITY/COMMUNICATIONS PROBLEMS CURRENTLY FACING BEIRUT,
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PAGE 02 MANAMA 01119 021352Z

WHICH HAVE AFFECTED ITS REPUTATION AS THE REGIONAL BUSINESS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

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CENTER (REFTEL). FOLLOWING A SEPTEMBER 24 MEETING OF ITS BOARD OF DIRECTORS, THE BMA ISSUED SEPTEMBER 28 NEW GUIDELINES FOR OFFICIAL POLICY VIS A VIS THE ESTABLISHING OF "OFF-SHORE" BANKING FACILITY LICENSE ISSUE.

2. LETTER TO EMBASSY FROM BMA DIRECTOR GENERAL DATED SEPTEMBER 28:
QTE WE BELIVE THAT YOU MAY OFTEN BE ASKED ABOUT THE POSSIBILITY OF OPENING BANK BRANCHES HERE IN BAHRAIN.
ALTHOUGH FULL LICENCES TO OFFER CURRENT ACCOUNT SERVICES WILL CONTINUE TO BE SEVERELY RESTRICTED BECAUSE OF THE SMALL SIZE OF THE DOMESTIC MARKET, WE ENCLOSE A SUMMARY OF THE TERMS AND CONDITIONS ON WHICH LIMITED "OFF-SHORE" LICENCES WOULD BE MORE READILY GRANTED. BEARING IN MIND BAHRAIN'S OWN COMPARATIVE LACK OF WEALTH BUT ITS IDEAL LOCATION AND COMMUNICATIONS WITHIN THE REGION, WE BELIEVE THAT THESE LICENCES WILL BE WELL SUITED TO WHAT BANKS REQUIRE.
REQUESTS TO OPEN REPRESENTATIVE OFFICES WILL ALSO BE CONSIDERED SYMPATHETICALLY, WHICH MAY BE VERY RELEVANT DUE TO THE UNREST IN BEIRUT WHERE MANY HAVE BEEN LOCATED IN THE PAST. UNQTE

3. GUIDELINES FOR OFF-SHORE BANKING UNITS:
(A) OFFSHORE BANKING UNITS (OBU'S) ESTABLISHED IN BAHRAIN MUST BE FULL BRANCHES OF THE PARENT BANK OR MUST SATISFY THE BAHRAIN MONETARY AGENCY (BMA) OF THE COMMITMENT OF THE PARENT BANK TO ITS OFFICE.
(B) OBU'S MUST BE FULLY STAFFED, OPERATIONAL BRANCHES WHOSE STAFF ARE ACTIVELY ENGAGED IN THE BUSINESS WHICH IS WRITTEN IN THE BOOKS OF THE BRANCH. PERMISSION WILL NOT BE GIVEN FOR BRASS PLATE OPERATIONS IN WHICH THE BUSINESS IS WRITTEN ELSEWHERE AND BOOKED INTO BAHRAIN SOLELY AS AN ACCOUNTING DEVICE.
(C) OBU'S WILL NOT BE ALLOWED TO DEAL IN ANY WAY WITH RESIDENTS OF BAHRAIN EXCEPT FOR THE GOVERNMENT, ITS AGENCIES, THE FULLY LICENSED BANKS AND, AS AN EXCEPTION, TO PARTICIPATE IN THE FINANCING OF DEVELOPMENT PROJECTS APPROVED BY THE BMA.
(D) OBU'S WILL NOT BE ALLOWED TO OFFER CHECKING ACCOUNT SERVICE BUT WILL OTHERWISE BE FREE TO OFFER ALL BANKING SERVICES TO NON-RESIDENTS OF BAHRAIN OF ALL CLASSES, GOVERNMENTS, BANKS AND NON-BANKS.
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(E) OBU'S WILL NOT BE REQUIRED TO MAINTAIN ANY RESERVES WITH THE BMA OR OBSERVE ANY FORMAL LIQUIDITY RATIOS.
(F) OBU'S WILL BE REQUIRED TO SUPPLY REGULAR MONTHLY STATISTICAL INFORMATION INCLUDING A BALANCE SHEET TO THE BMA AND TO SATISFY THE BMA IF CALLED UPON TO DO SO OF THEIR ABILITY TO MEET THEIR OBLIGATIONS AS THEY FALL DUE.
(G) OBU'S WILL BE REQUIRED TO SUBMIT TO THE BMA A BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF THEIR OBU OPERATION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

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AUDITED BY AUDITORS APPROVED BY THE BMA WITHIN 90 DAYS OF THE YEAR END AND IN DUE COURSE FILE A COPY OF THEIR GROUPS PUBLISHED ACCOUNTS.

(H) AN ANNUAL LICENCE FEE OF $25,000 IS PAYABLE TO THE BMA FOR AN OBU LICENCE; NO TAXATION ON OBU PROFITS IS AT PRESENT PLANNED OR PROPOSED BY THE GOVERNMENT OF BAHRAIN.

(I) EXISTING FULLY LICENCED BANKS MAY APPLY FOR AN OBU LICENCE FOR THEIR NON-RESIDENT BUSINESS. THE BMA WILL WISH TO BE SATISFIED THAT ADEQUATE ARRANGEMENTS ARE MADE FOR SEPARATE ACCOUNTING RECORDS.

4. COMMENT: PRIOR TO THE RECENT TROUBLES IN BEIRUT, THE GOVERNMENT OF BAHRAIN AND THE BMA HAD BEEN MAKING PLANS TO AGGRESSIVELY PURSUE FOREIGN BANKS INTERESTED IN SETTING UP OFFSHORE BANKING UNITS WITH A VIEW TO REGIONAL, PARTICULARLY SAUDI, BANKING ACTIVITIES. THE SEPTEMBER 24 DECISION REPRESENTS THE GOB POLITICAL DECISION TO SUPPORT THE BMA TECHNOCRATS PRELIMINARY NEGOTIATIONS WITH SEVERAL FOREIGN BANKS WITH SPECIFIC GUIDELINES. THE BMA HAS, AT THE SAME TIME IT CORRESPONDED WITH EMBASSY, SENT DIRECTLY TO THOSE BANKS (SUCH AS AMERICAN EXPRESS) WHICH HAD PREVIOUSLY EXPRESSED INTEREST IN OBU FACILITIES, A REQUEST FOR WRITTEN COMMITMENT THAT THE BANKS ARE INTERESTED ON THE TERMS STATED PARA 3. BMA WILL MEET THE FIRST WEEK OF NOVEMBER TO CONSIDER (READ APPROVE) THE APPLICATIONS OF THOSE BANKS WHICH RESPOND FAVORABLY. IT IS THE EXPECTATION OF THE BMA THAT THE APPLICATION FROM AMERICAN EXPRESS WILL BE APPROVED DURING THAT MEETING AND THAT ONE FROM FIRST NATIONAL CITY BANK SHOULD NOT BE FAR BEHIND. END COMMENT.

5. WE HAVE ALSO BEEN INFORMED THAT THE BMA HAS GIVEN FORMAL APPROVAL FOR REPRESENTATIVE OFFICE FACILITIES FOR MANUFACTURING HANOVER TRUST. THUS THE LOCAL AMERICAN BANKING PRESENCE WILL
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PAGE 04 MANAMA 01119 021352Z

INCLUDE: CHASE MANHATTAN AND FIRST NATIONAL CITY BANK WITH ON-GOING, FULL-SERVICE BANKING FACILITIES; CONTINENTAL BANK OF ILLINOIS (WHICH HAS BEEN "SETTING UP" SINCE MARCH 1975) IS EXPECTED TO OPEN ITS DOORS IN EARLY 1976.
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EO Systematic Review
06 JUL 2006

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